



CalPERS Update

City Council
Budget Workshop
May 4, 2004



CalPERS Update

- Current Benefits Contracted For
- General Fund FY 05 PERS Cost
- PERS Employer Rate – Restructuring Option
- Revised General Fund PERS Cost
- Recent PERS Investment Earnings



Rates When City Starts Paying PERS in October 2004

- Miscellaneous Employees (non-safety)
 - Employees and Managers 2.7% at 55:
 - Employer Rate: 6.3%
 - Employee Rate: 8.0%
 - City Pays Entire Employer Portion
 - Employee Pays 1/8th (or 1%) of Employee Portion
 - City Pays 7/8ths (or 7%) of Employee Portion
 - 2nd Tier Employees to Receive Highest Year, Military Buy-Back and Sick Leave Conversion to Service Credit Benefit (Previously Negotiated) – *Have Requested Union to Defer*
 - New Non-Safety Managers 2% at 55 - October 1, 2004 (Conceptual Agreement):
 - New Manager Pays 5/8ths (or 5%) of Employee Portion for First 5 Years; thereafter, the Contribution Amount Reverts to the Amount Paid by Other Non-Safety Unions



Rates When City Starts Paying PERS in October 2004 (Continued)

- **Safety Employees**
 - Employees and Managers 3% at 50:
 - Employer Rate: 14.2%
 - Employee Rate: 9%
 - City Pays Both Employee & Employer Portions (non-management)
 - Safety Managers Pay 2/9ths (or 2%) of Employee Portion*
 - * *Contingent on Non-Management Safety Unions Agreeing to these Terms*
 - New Safety Managers 3% at 55 - October 1, 2004 (Conceptual Agreement):
 - New Manager Pays 5/9ths (or 5%) of Employee Portion for First 5 Years; thereafter, the Contribution Amount Reverts to the Amount Paid by Other Safety Unions



General Fund FY 05 PERS Cost \$32.2 Million

Group	Employer Portion	Employee Portion	Total
Miscellaneous	\$4,477,000	\$4,965,000	\$9,442,000
Public Safety	\$13,937,000	\$8,828,000	\$22,765,000
Total General Fund	\$18,414,000	\$13,793,000	\$32,207,000

Total All Funds	\$26,854,000	\$23,065,000	\$49,919,000
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PERS Employer Rate Restructuring Option

(Adopted April 20, 2004 by PERS Board)

- Could Defer Up to 80 Percent of the City's FY 05 Employer Contribution for One Year
- Defers Up to \$14.7 Million of FY 05 Pension Costs
- Requests for Deferral Deadline Due June 15, 2004
- Requires City & Labor to Agree to Deferral
- Requires Certification that All Other Means to Make Payments Have Been Explored
- FY 06 Costs Not Affected (Full Costs Return in FY 06)



Financing Option

Borrow from PERS

- All or a Portion of \$14.7 million could be Deferred
- “Loan” Repaid Through Higher Employer Contributions Beginning FY 2007-08
- Loan: 7.75 Percent Interest
- Payments: 10 Percent of Unpaid Balance
- Annual Cost: Approximately \$1.8 Million
- Early Repayment Penalty: None
- Total Cost: Dependent on Amount “Borrowed” and Repayment Term
- Other Options are Being Explored



Revised General Fund FY 05 PERS Cost After Deferring \$14.7 Million

Group	Employer Portion	Employee Portion	Total
Miscellaneous	\$895,000	\$4,965,000	\$5,860,000
Public Safety	\$2,787,000	\$8,828,000	\$11,615,000
Restructured General Fund	\$3,682,000	\$13,793,000	\$17,475,000
Restructured All Funds	\$5,370,000	\$23,065,000	\$28,435,000



FY 05 PERS Rates

Before and After Cost Deferral

Current FY 05 Rates:

Group	Employer Portion	Employee Portion	Total
Miscellaneous	6.3%	7.0%	13.3%
Public Safety	14.2%	9.0%	23.2%

Restructured FY 05 Rates:

Group	Employer Portion	Employee Portion	Total
Miscellaneous	1.3%	7.0%	8.3%
Public Safety	2.8%	9.0%	11.8%



Recent PERS Investment Earnings

- Last Fiscal Year Ended June 30, 2003: 3.7 Percent
- **Calendar Year 2003: 23.2 Percent**
- Fiscal Year-to-Date (March 2004): 16.2 Percent
- PERS Assumed 8.25 Percent for Projections
- City Pension Costs Expected to Increase Over 30 Percent From FY 05 to FY 07
- Earnings Higher Than Assumptions This Year; May Lower Pension Payments in FY 07



Conclusion

- FY 05 – Portion of Employer Cost could be Deferred
 - Provides relief for one year only
 - Losses from State budget could be a factor in City decision
- FY 06 – Full Rates Must Be Paid (\$40 million)
- Financing Options (PERS, Bond Market) Being Explored
- PERS positive investment earnings could result in reduced rates in FY 07 and thereafter
- **Earnings Cannot be Guaranteed**



Conclusion (Continued)

- Three-Year Financial Strategic Plan Calls for Cost Reductions From Compensation, Benefits and Work Practices Totaling \$23.4 Million for FY 05 and FY 06
- Management & Labor must continue to work diligently towards the Three-Year Plan Goals